



Order 96-8-43
Served 9/5/96

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

**Issued by the Department of Transportation
on the 29th day of August, 1996**

1996 U.S.-Japan All-Cargo Service Proceeding

Docket OST-96-1366

ORDER TO SHOW CAUSE

By this order we tentatively grant the application of Polar Air Cargo, Inc. ("Polar") to conduct scheduled all-cargo service between the U.S. and Japan and beyond to one point. We also tentatively choose Evergreen International Airlines, Inc. ("Evergreen") as the backup carrier.

I. BACKGROUND

Under the April 1996 United States-Japan Memorandum of Understanding ("1996 MOU"), the U.S. may designate one new carrier to provide scheduled all-cargo service over a U.S.-Japan-beyond point routing. The new designated carrier must be a carrier that is not operating scheduled all-cargo or combination services between the United States and Japan as of the date of the signature of the 1996 MOU. The new U.S. carrier may not serve Tokyo and will be limited to six weekly frequencies. Also, the selected carrier will receive no fifth freedom rights and may serve the beyond point only on a blind sector basis. On May 13, 1996, we issued Order 96-5-14, instituting the *1996 U.S.-Japan All-Cargo Service Proceeding* in Docket OST-96-1366 to select one primary carrier and one backup carrier to provide scheduled all-cargo service in the U.S.-Japan market.

As stated in Order 96-5-14, the principal objective of the Department is to maximize the public benefits that will result from award of this authority. As such, we have considered which applicant will offer and maintain the best service for the shipping public and the effect of the service proposal on the overall market structure and level of competition in the U.S.-Japan market and other relevant markets. We also considered the carrier's ability to flow and feed freight to and from points behind its proposed gateway or hub, as well as other factors historically used for carrier selection.

II. APPLICATIONS AND PLEADINGS

Initially, three carriers applied for scheduled all-cargo U.S.-Japan route authority: Polar, Evergreen, and American International Airways, Inc. ("AIA"). On May 31, 1996, Gemini Air

Cargo, LLC ("Gemini") filed a motion for leave to file an otherwise unauthorized document. Within that motion, Gemini requested leave to file its Application for a Certificate of Public Convenience and Necessity and for Selection to Operate U.S.-Japan All-Cargo Scheduled Service. Gemini did not ask for any extension of the remaining procedural deadlines, and therefore, argued that acceptance and consideration of its application would neither prejudice any of the other applicants nor hinder DOT consideration of the other applications in this case. In light of the lack of opposition to Gemini's application, on June 11, 1996, we granted Gemini's motion and accepted its application in this case.¹ Each of the four applicant carriers filed supporting briefs and submitted Direct and Rebuttal Exhibits. In addition, Chicago, Seattle and Rickenbacker International Airport (Columbus, Ohio) filed briefs and submitted Direct and Rebuttal Exhibits.²

A. Polar Air Cargo, Inc.

Polar proposes to operate six (6) weekly round-trip frequencies between the U.S. and Osaka, Japan (KIX) via Anchorage using B-747-200F aircraft. All six westbound frequencies will operate from New York (JFK) over Chicago (ORD) and continue to Osaka via Anchorage (ANC). One of these six weekly frequencies will also operate over Los Angeles (LAX) before continuing to Anchorage. Of the remaining five frequencies, three will continue beyond Osaka to Seoul, Korea (SEL). Two of the Seoul frequencies will return directly to Anchorage bypassing Osaka on the return leg. Polar also proposes to operate on-line connecting flights from Los Angeles, San Francisco and Seattle, and the cargo will be transloaded at Anchorage on the New York through-flight.

Polar argues that: 1) it is the only applicant to offer single-plane or on-line connections to all of the top four U.S. points of origin for Japan traffic (Los Angeles, San Francisco, New York and Chicago) and to a total of eight cities overall; 2) its ability to transload between the U.S.-Japan-Korea flights proposed here and inter-continental flights in its existing route structure multiplies the benefits of its proposal; 3) Osaka is the most logical choice for the Japan gateway; 4) with Northwest's announced withdrawal of scheduled freighter service from the Korean market, Polar would provide the only U.S. scheduled all-cargo lift between the U.S. and Korea; 5) it has important operating experience as it currently provides scheduled international air freight service to 10 foreign countries and with its anticipated additional B-747F aircraft will have the largest fleet of B-747F aircraft among the applicants; and 6) its proposed "loop" routing on two of the Seoul frequencies is more advantageous than the other applicants' proposals because it reduces costs associated with a second landing at Osaka on the return flight.

The other applicants argue that: 1) Polar's proposal offers no new express/small package delivery or door-to-door service and only offers airport-to-airport service from traditional gateways that is largely redundant of service that is already available in the market, and therefore it will have minimal impact on the market and the level of competition;³ 2) Polar's proposal has no hubbing benefits and instead relies exclusively on an antiquated and archaic transload system that is not suitable for today's market;⁴ 3) the proposed service to Korea is not economically feasible and offers little public benefits because of the existing service and low rates in the market and the

¹ See Notice, Docket OST 96-1366, issued June 11, 1996, served June 14, 1996.

² Evergreen submitted to the docket and served on all parties various letters from members of Congress, civic and other interested parties. Although these submissions were not accompanied by a motion for leave to file an otherwise unauthorized document, we will treat Evergreen's submissions as such and grant the motion.

³ Evergreen brief pp. 30 and 32.

⁴ AIA brief p. 7.

expense of adding the beyond service;⁵ 4) Polar fails to maximize the use of the beyond rights by only using three flights per week;⁶ and 5) Polar does not have adequate number of B-747F aircraft to operate its schedule.⁷

B. Evergreen International Airlines, Inc.

Evergreen proposes to operate six weekly round-trip frequencies using B-747-200F aircraft between the U.S. and Komatsu (KMQ), Japan via Anchorage. Five of the weekly frequencies would originate from Columbus, Ohio and the sixth would originate from New York (JFK) over Chicago (ORD). One of the five Columbus frequencies would continue beyond Komatsu to Hong Kong (HKG), with return service to Anchorage, Chicago, and then New York. All remaining frequencies would terminate in Columbus, but would connect with other Evergreen flights three times per week to New York.

Evergreen argues that: 1) it is the only applicant proposing a new U.S. gateway, Columbus, Ohio; 2) it is the only applicant to offer express/small package and door-to-door service; 3) it will provide service to the most U.S. cities (118) through direct connections at Columbus to the Ohio hubs of four of the largest U.S. integrated carriers (Burlington Air Express in Toledo, Ohio; Airborne Express in Wilmington, Ohio; DHL in Cincinnati, Ohio; and Emery Worldwide in Dayton, Ohio); 4) it is the only applicant to propose a new Japan gateway, Komatsu, which Evergreen claims is ideally located to compete for traffic in the Tokyo market; 5) one advantage of its new U.S. and Japan gateways proposal is that both the Komatsu and Columbus airports have lower operating expenses than the larger hubs proposed by the other applicants; 6) its proposed Hong Kong beyond service will integrate with its existing Hong Kong service thereby increasing the benefits of its proposal; and 7) it has vital experience operating in Japan necessary to enter the difficult Japanese market.

The other carriers contend that: 1) Evergreen's proposal more closely resembles that of a charter operator than a scheduled service operator because it does not involve a true hub but instead is heavily reliant on its "alliance" with four major U.S. all-cargo carriers;⁸ 2) the choice of Komatsu as the Japan gateway is a poor one because it has practically no local traffic base, will require trucking of freight with the absorption of costs, and Komatsu's runway limitations will mandate an additional fuel stop;⁹ 3) Evergreen's schedule including trucking times to Tokyo and Osaka preclude same business day service;¹⁰ 4) the addition of one weekly beyond flight to Hong Kong will not add to market competition as Hong Kong already receives substantial service;¹¹ and 5) Evergreen proposes no single-plane service west of Chicago, virtually ignoring Los Angeles and San Francisco, the top two sources of U.S. all-cargo traffic to Japan; and the third and fourth largest markets for U.S.-Japan traffic, New York and Chicago, would receive very little new service.¹²

III. American International Airways (AIA)

⁵ Evergreen brief p.34.

⁶ Gemini brief p. 4.

⁷ AIA brief pp. 12-13.

⁸ Polar brief p. 11, AIA brief p. 6.

⁹ Polar brief p. 18.

¹⁰ Polar brief p. 25, AIA brief p. 13.

¹¹ Gemini brief p. 8.

¹² AIA brief p. 8, EZ-301, 303.

AIA proposes using B-747-100 aircraft for 3 weekly frequencies between the U.S. and Osaka. For its beyond Japan point, AIA proposes to serve Jakarta, Indonesia (CGK) on all frequencies. There will be one frequency a week from three different U.S. gateways; Chicago (ORD), New York (EWR), and Los Angeles (LAX). Within six months of beginning service, if AIA determines that the service is reasonable, profitable and sustainable, it plans to increase by one weekly frequency its service levels at each of these three U.S. gateway cities, thus increasing to six frequencies its total weekly service between the U.S. and Osaka and beyond to Jakarta.¹³

AIA argues that: 1) it would provide the first U.S.-flag direct, nonstop (other than technical stops) B-747-100 service by an all-cargo carrier between Osaka and Los Angeles and New York (Newark); 2) its proposal offers the only true behind-the -gateway hub connecting over 50 U.S. cities; 3) gateway shippers would have more capacity under its proposal than those of the other applicants (a minimum of two-thirds of the aircraft capacity); 4) it would provide the first U.S.-flag all-cargo service from the continental U.S. to Indonesia; 5) selection of AIA would allow it to integrate its Osaka service with other services it plans to initiate (*i.e.* U.S.-Indonesia); 6) of all the applicants, AIA is the largest, most experienced operator of non-scheduled (charter) service in the Pacific Rim; and finally 7) its reluctance to begin service with all six available frequencies represents an objective assessment of the difficulties of entering the market.

The other applicants assert: 1) AIA's proposal to operate only three round-trip frequencies is not an effective use of hard won rights;¹⁴ 2) one weekly flight from each gateway (Los Angeles, Chicago, New York) provides little public benefit and will have very little competitive impact in these markets;¹⁵ 3) AIA's proposal does not offer credible connections to its own domestic network;¹⁶ 4) the length of the U.S.-Japan-Indonesia round-trip requires a separate aircraft for each flight which is not economically feasible;¹⁷ 5) AIA's domestic hub only operates four days per week while other domestic hubs operate five and six days a week;¹⁸ 6) AIA's traffic forecast is overly optimistic given its limited service proposal of three weekly flights;¹⁹ and 7) the beyond service to Jakarta, Indonesia is too expensive and in a high risk market, and therefore, renders the entire proposal unfeasible.²⁰

IV. Gemini Air Cargo

Gemini proposes to operate Chicago-Osaka via Anchorage six times per week using DC-10-30F aircraft and beyond to Taipei, Taiwan on all six frequencies. Gemini is seeking certification from the Department, a process which has not yet been completed. Gemini argues that: 1) it is a new carrier entrant; 2) it is the only applicant to serve its proposed beyond point, Taipei, on all six frequencies; 3) selection of Gemini for the Chicago-Anchorage-Osaka-Taipei route will maximize competition as both Chicago and Osaka are underserved relative to the size of the cities' economies; 4) its proposed flight schedule is the most convenient for shippers on both sides of the Pacific; 5) its reliance on local traffic will allow for more efficient and on-time operations; and 6) its

¹³ AIA-T-1, p. 5.

¹⁴ Gemini brief p. 4.

¹⁵ Evergreen brief p. 22.

¹⁶ Evergreen brief pp. 24-25, Gemini brief pp. 10-11.

¹⁷ Evergreen brief pp. 26-27.

¹⁸ Polar brief p. 12.

¹⁹ Polar brief p. 22. AIA forecasts 35 percent more traffic than Evergreen (on a 3 frequency-per-week basis) despite the limited presence it would have in the three gateway markets it proposes to serve (one frequency per week). AIA forecasts it will carry between 5 percent and 7.5 percent of the total traffic from each of the three gateways despite operating only 92 flights per year. AIA-302.

²⁰ Gemini brief pp. 7-8, Evergreen brief pp. 22-23.

proposed aircraft, the MD DC-10-30F, is best suited for the U.S.-Japan all-cargo service as it meets FAR stage III noise regulations and has a higher dispatch reliability than the B-747.

The other carriers argue that: 1) Gemini is currently awaiting award of a DOT certificate as a new U.S. all-cargo airline and has no experience in any market or any of the fundamental relationships on which the Japan service must rely;²¹ 2) while all three other applicants would operate B-747F aircraft with payloads ranging from 192,000 pounds to 241,600 pounds, Gemini proposes to operate the smallest aircraft of the applicants, a DC-10-30F, with a payload of only 165,000 pounds and thus it fails to make maximum use of the limited frequencies;²² 3) there is no public benefit to Gemini's beyond service to Taipei as that market is already well served by U.S. and foreign carriers and any economic support that Gemini would receive from these services would be negated by the added costs associated with the additional landing and takeoff that must be made at Osaka each round-trip;²³ and 4) Gemini provided no traffic forecast.²⁴

V. CIVIC PARTIES

The City of Chicago and the Port of Seattle have both filed briefs and exhibits in support of Polar's application. Seattle argues that an award to Polar will greatly enhance Seattle's efforts to increase competition in the Pacific Rim market by providing 880,000 pounds of new weekly lift capacity to Seattle air freight customers. Chicago asserts that, of the three applicants proposing to serve Chicago, only Polar has both the strong presence in the Chicago cargo market and has proposed to operate six weekly flights.²⁵

Rickenbacker International Airport²⁶ filed pleadings in support of Evergreen's proposal and states that Evergreen will provide new convenient competitive express freight service to and from 118 U.S. cities, as well as serving the needs of Columbus and Ohio which have strong commercial connections to Japan. Rickenbacker argues that it has the benefit of being a new U.S. gateway and that its central location offers strategic advantage over the other choices of U.S. gateways as it is located within 500 miles of 50 percent of the U.S. population.

VI. DECISION

A. Choice of Primary Carrier

After consideration of all the pleadings in this matter, we have tentatively decided to award the U.S.-Japan scheduled all-cargo route to Polar and tentatively choose Evergreen as the backup carrier. This decision reflects our tentative conclusion that selection of Polar as the primary carrier and Evergreen as the backup carrier will best serve the public interest and is consistent with the selection criteria set forth in Order 96-5-14: maximum public benefits from these valuable route rights, the best service for the shipping public, the positive effect

²¹ Evergreen brief p. 29.

²² Evergreen brief p. 27.

²³ Evergreen brief p. 27 and Polar brief p. 20.

²⁴ Polar brief p. 26.

²⁵ Chicago notes that Gemini is also proposing to serve Chicago with six weekly frequencies, but states that it has no presence as an air carrier in the Chicago market. Chicago argues that AIA's proposal to serve Chicago is substantially inferior, as Chicago would only receive service once a week initially and then possibly in the seventh month of operation Chicago would receive a second frequency.

²⁶ Rickenbacker International Airport filed a Motion to Late File Rebuttal Exhibits and Statement of Position. We will grant that motion.

of the proposal on competition in the U.S.-Japan market, the benefits of route integration, and the ability of a carrier to flow freight to and from points behind its proposed gateway.

In tentatively choosing Polar as the primary carrier, we tentatively find that Polar's proposal offers the most effective use of the valuable U.S.-Japan all-cargo route rights. The restrictive nature of the U.S.-Japan bilateral aviation agreement, with the limited entry and the limited number of frequencies that can be operated in the cargo market, put a premium on full use of the limited frequencies and on wide-body aircraft. Only Polar and Evergreen propose to use all six frequencies with B-747F aircraft. Although AIA proposes to use a B-747F aircraft, it will only use three frequencies initially; and while Gemini proposes six frequencies, it would use DC-10 aircraft.

Polar's proposal combines the maximum frequencies (six), the capacity of a B-747F aircraft and on-line service to and from eight U.S. cities, including the top four U.S.-Japan cargo markets (New York, Los Angeles, San Francisco and Chicago), to provide more direct service than any other carrier. Evergreen claims that it would provide service to 118 cities through its connections with four cargo express carriers. However, Japan originating cargo carried by Evergreen would have to be trucked to the various carriers' hubs before it could then be flown by the relevant express carrier to the final destination. AIA states that it has connections to over 50 cities, but traffic would have to flow from each of the three gateways to the Terre Haute hub and then on to the ultimate destination. Gemini has proposed service only to Chicago with no behind gateway feed. In contrast, Polar would carry Japan originating cargo to Anchorage and then directly by single-plane service to its gateway destination or alternatively transload the cargo to an on-line connecting flight to its final destination.

Polar proposes to conduct transload operations at Anchorage, building upon its existing scheduled services to eight foreign countries in the Pacific region. Polar's fleet of B-747F aircraft will ensure the efficiency of that operation.²⁷ As a result of its ability to flow traffic through its transload operations, Polar has forecast that it will carry 53 million pounds annually westbound to Japan/Korea and 52.2 million pounds eastbound, with a round trip load factor of 85 percent.²⁸ Overall, Polar's proposal will substantially increase scheduled cargo service available for U.S. shippers.

Polar has chosen Osaka as its Japan gateway. Osaka is the second largest Prefecture and industrial area in Japan, and is the second largest point of origin and destination for international air freight in Japan. Until recently development of the air freight market at Osaka was severely constrained by the limited capacity of the Itami airport, and as a result, much of the Japan-originating traffic flowed over Tokyo. The opening of the new Kansai Airport at Osaka provides carriers an opportunity to develop this important air freight market. Polar's choice of Osaka will stimulate intergateway competition, as well as provide new opportunities to shippers. In addition, Polar proposes to draw on Tokyo originating and destination traffic.

Polar's proposal takes into consideration that traffic flows vary by the day of the week. On the three days of peak demand, Polar has scheduled turnaround service to meet shippers'

²⁷ One applicant has questioned whether Polar would have adequate aircraft to operate its route proposal. Polar has argued that its transload operations would allow it to operate its route proposal more efficiently with fewer aircraft and that it would be adding three new B-747 aircraft in the near future. Therefore, we are not persuaded that Polar would lack sufficient aircraft to operate its proposal.

²⁸ Polar brief p. 21, PO-300, 301.

needs. On those days of weaker traffic demand, Polar will continue its flights beyond Japan to Seoul, Korea.²⁹ The combination of service to Japan and Korea, two of the largest U.S.-Asian trading partners will ensure the economic feasibility and full use of all six frequencies. With the announced withdrawal of Northwest's freighter service to Korea, Polar will be the only U.S.-flag scheduled all-cargo carrier in the market. The additional three frequencies will be added to Polar's existing U.S.-Korea operations and will help maintain a U.S.-flag presence and strengthen U.S.-flag competition in the Korean market from all major U.S. gateways.

We note that selection of Polar will provide other public benefits as well. As required under the terms of the 1996 MOU, Polar is a new entrant in the U.S.-Japan scheduled all-cargo market. However, Polar has significant trans-Pacific experience providing scheduled all-cargo service to several countries in the Pacific Rim region.³⁰ This experience should serve Polar well as it develops the U.S.-Japan all-cargo market, and thereby increase competition in the U.S.-Japan all-cargo market. Finally, the addition of the U.S.-Japan route to Polar's existing route structure will increase competition generally in the U.S. aviation market. In light of the above, we tentatively conclude that no other carrier would provide as many public benefits as Polar.

B. Choice of Backup Carrier

Next to Polar's proposal, we tentatively find that the proposal of Evergreen would provide the most public benefits. Evergreen's proposal has many strengths: its immediate use of all six frequencies and the size of its aircraft, B-747F, would maximize the full potential of the limited frequencies available. Evergreen is the only applicant to include express and small package door-to-door delivery in its proposal. In addition, Evergreen proposes a new U.S. gateway, Columbus, Ohio. Its proposal is unique in that use of the Columbus gateway would allow it to tie into four major U.S. all-cargo carriers that have their hubs in Ohio: Burlington Express, Toledo; Airborne Express, Wilmington; DHL, Cincinnati; and Emery Worldwide, Dayton. Evergreen through its relationships with these carriers would offer service to more U.S. cities (118) than any other applicant.

Despite the benefits for U.S. shippers provided by Evergreen's proposal, we tentatively find Polar's proposal to be superior. Evergreen proposes no single-plane service west of Chicago, ignoring Los Angeles and San Francisco, the two largest markets for cargo to Japan. Only after a backhaul to its gateway, would Evergreen provide service to Los Angeles and San Francisco through its connections with the four integrated carriers. Also, Evergreen's proposal of one weekly single-plane flight from New York over Chicago, and three connecting flights to New York from Columbus, would provide fewer public benefits

²⁹ One applicant has criticized Polar's proposal because it only proposes three weekly flights to its chosen beyond point. In some route cases, the frequency of service to a beyond point could be a decisive factor. However, in the U.S.-Japan market the limited bilateral route rights are so valuable that maximum use of these rights is far more important than use of blind sector beyonds. In this proceeding, service to a beyond point will be considered as supplemental and secondary to a carrier's primary U.S.-Japan route proposal. We tentatively find that Polar's choice of Seoul, Korea as its beyond point serves to enhance its outstanding U.S.-Japan route proposal and that limited service to the beyond point does not diminish the public benefits that would be gained by our choice of Polar as the primary carrier.

³⁰ Polar currently provides service to: Seoul, Korea; Singapore; Taipei, Taiwan; Auckland, New Zealand; Hong Kong; Melbourne and Sydney, Australia. Polar also provides service to: Buenos Aires, Argentina; Santiago, Chile; Amsterdam, the Netherlands; and London, United Kingdom. Pending final governmental approval are: Khabarovsk, Russia; Nandi, Fiji; and Manaus, Sao Paulo and Rio de Janeiro, Brazil. Also, scheduled service to Dubai, United Arab Emirates and New Delhi India are scheduled to commence later this year. Polar brief p. 7.

than Polar's proposal to serve both New York and Chicago on all six frequencies. Polar also proposes to serve Los Angeles by one weekly single-plane flight and six weekly on-line connections, San Francisco by six weekly on-line connections and Seattle by four weekly on-line connections.³¹ We tentatively conclude that Polar's combination of services to the top four U.S.-Japan markets will better serve the public interest.

Evergreen has chosen a new Japan gateway, Komatsu. Evergreen's choice of the new U.S. and Japan hubs would provide intergateway competition in both the U.S. and Japanese markets and allow it to take advantage of the lower operating costs associated with the Rickenbacker and Komatsu airports. However, these savings will be offset in part by the costs of an additional fuel stop resulting from Komatsu's runway limitations.

Evergreen argues that choice of Komatsu as the Japan gateway will provide more public benefits than Osaka because Komatsu is ideally placed to attract cargo from Tokyo. Evergreen's exhibits show the trucking times between Tokyo and Komatsu as six hours and argues that this time is between one-half to two-thirds of the trucking time between Tokyo and Osaka.³² Polar disputes this and claims that the trucking times between the Baraki air freight clearance facility in Tokyo and the Kansai and Komatsu airports are almost identical.³³ Although the trucking time between Tokyo and Komatsu may be slightly less, we tentatively conclude that both carriers should be able to attract cargo traffic from Tokyo. Moreover, when comparing the public benefits gained by service to Osaka against service to Komatsu, we tentatively find that Polar's choice of Osaka as the Japan gateway would provide superior public benefits. Osaka is the second largest O&D market in Japan, and thus Polar will be able to carry local, as well as Tokyo traffic. In contrast, Evergreen's proposal relies heavily on its ability to capture Tokyo traffic which would require Evergreen to absorb the trucking costs to be competitive.³⁴

Based upon the above, we tentatively conclude that although Evergreen's proposal would not provide as many public benefits as that of Polar, it is superior to those of AIA and Gemini, and therefore, our tentative choice for backup carrier. Lastly, choice of Evergreen for backup authority would provide the benefit of an established carrier with name recognition in the market. In the event that Evergreen would be called upon to exercise its rights as backup carrier, Evergreen's experience as a wet lease and charter operator to Japan should prove very beneficial since the U.S.-Japan market is a very difficult market to enter. As our tentative choice for backup carrier, Evergreen's ability to enter quickly the Japan market and begin operation of the route is particularly important.

C. Other Applicants

While the proposals of the other carriers also offer public benefits, in neither case are these enough to overcome the superior proposals of Polar and Evergreen. AIA proposes to use B-747F aircraft, but only plans to operate three weekly flights initially with single flight operations from New York, Chicago, and Los Angeles. With AIA's behind-the-gateway hub at Terre Haute, through its affiliates and subsidiaries, it would provide integrated intermodal

³¹ PO -102, 103

³² EZ-T-1 p. 7, EZ-R-6 pp. 1, 3, 10.

³³ Polar brief p. 17, PO-RT-2 p. 2, PO-R-101-102.

³⁴ We note that Evergreen claims it will to attract Nagoya and Osaka traffic in addition to Tokyo traffic. Evergreen's exhibits show the trucking times between Komatsu and Nagoya as three hours and between Komatsu and Osaka as four hours. However, Evergreen has not provided any forecast of the traffic that it proposes to carry in each market. EZ-T-1 p. 7, EZ-RT-1 p. 4, EZ-R-6 p. 10.

service to 50 U.S. cities. AIA's exhibit implies that after six months AIA will increase its service to six weekly flights, but it will only do so if the initial U.S.-Japan service proves to be reasonable and cost efficient.³⁵ Although AIA's hub at Terre Haute would provide substantial access for U.S. shippers, these benefits are diminished by AIA's failure to use all six frequencies immediately. AIA argues that its proposal takes into consideration the difficulties of entering the Japanese market. However, the U.S.-Japan frequencies available in this proceeding came at a high bilateral price and are too valuable to not be used to their maximum potential.

In addition, AIA's one weekly flight to each gateway is unlikely to improve competition in these markets significantly or be an effective alternative to existing freight services in the market. Although AIA's proposes the first continental U.S. service to Indonesia, our primary concern in this proceeding is the maximum use of the bilateral U.S.-Japan route rights. AIA does have operating experience in the U.S.-Japan market which would be advantageous in fully developing this market, but this experience is not enough to overcome the other deficits of its proposal.

While Gemini has the advantage of being a new entrant carrier, it has provided no forecast of the traffic it proposes to carry, making it difficult to evaluate fully its proposal. Gemini proposes to use Chicago as its U.S. gateway. However, Gemini does not propose any feed or behind-the-gateway operations, and thus would rely totally on local Chicago-Japan/Taipei traffic. Gemini would offer no air service of any kind to the top three U.S. points of origin (Los Angeles, San Francisco, New York) for all-cargo traffic to Japan. Although Chicago is the fourth largest U.S.-Japan O&D market, Polar's proposal with direct and on-line service to eight U.S. cities, including single-plane direct service to Chicago, would provide new service for a substantially greater number of shippers. Therefore, we tentatively find Polar's proposal superior to that of Gemini. Our tentative conclusion is supported by the pleadings of the City of Chicago itself.

Moreover, of all the applicants, Gemini proposes to use the smallest aircraft, DC-10-30F, with a payload of only 165,000 pounds. All the other applicants would operate B-747F aircraft with payloads from 192,000 to 241,600 pounds. In light of the restrictive nature of the Japan air cargo market and the limited number of frequencies at issue in this proceeding, we believe that the public interest would be best served by a carrier using larger aircraft.

For the reasons set forth above, we tentatively conclude that selection of Polar will best maximize the public interest and that it should receive the primary award in this proceeding. We also tentatively conclude that Evergreen's proposal would provide significant public benefits and therefore it should receive the backup award.

ACCORDINGLY,

1. We direct all interested persons to show cause why we should not issue an order making final our tentative findings and conclusions;
2. We direct interested persons wishing to comment on our tentative findings and conclusions, or objecting to the issuance of the order described in paragraph 1, to file in Docket OST-96-1366, and serve on all persons on the service list in that docket, a statement of such objections together with any supporting evidence the objector wishes the

³⁵ AIA-T-1 p.4.

Department to consider, not later than ten days after issuance. Answers to objections shall be due five days thereafter;³⁶

3. If timely and properly supported objections are filed, we will afford full consideration to the matters or issues raised by the objections before we take further action. If no objections are filed, we will deem all further procedural steps to have been waived, and proceed to enter a final order subject to Presidential review under 49 U.S.C. 41307;
4. We grant Rickenbacker International Airport's Motion to Late File Rebuttal Exhibits and Statement of Position;
5. We grant Evergreen's motion for leave to file an otherwise unauthorized document; and
6. We shall serve this order on all persons on the service list in Docket OST-96-1366.

By:

Patrick V. Murphy
Deputy Assistant Secretary for
Aviation and International Affairs

(SEAL)

*An electronic version of this document is available
on the World Wide Web at
<http://www.dot.gov/dotinfo/general/orders/aviation.html>*

³⁶ All filings should be on 8 1/2" x 11" white paper using dark ink.